

---

LOAN NUMBER 4081-TIM (COL)

LOAN AGREEMENT  
(Ordinary Operations [Concessional])  
(Water Supply and Sanitation Investment Project)

between

DEMOCRATIC REPUBLIC OF TIMOR-LESTE

and

ASIAN DEVELOPMENT BANK

DATED 6 AUGUST 2021

---

TIM 53395

**LOAN AGREEMENT**  
**(Ordinary Operations [Concessional])**

LOAN AGREEMENT dated 6 AUGUST 2021 between DEMOCRATIC REPUBLIC OF TIMOR-LESTE ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

**WHEREAS**

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Borrower has also applied to the Global Environment Facility Trust Fund ("GEF"), who agreed to provide a grant to the Borrower for purposes of cofinancing the Project, in the amount of up to three million dollars (\$3,000,000) ("GEF Grant"), to be administered by ADB pursuant to the Financial Procedures Agreement between ADB and the International Bank for Reconstruction and Development as the Trustee of GEF, dated 23 October 2008, as amended, and subject to the terms and conditions of an externally financed grant agreement of even date herewith between ADB and the Borrower ("Grant Agreement"); and

(C) ADB has agreed to make a concessional loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All provisions of ADB's Ordinary Operations (Concessional) Loan Regulations, dated 1 January 2017 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

- (a) "CAFI" means the Borrower's Conselho de Administracao do Fundo Infraestrutura established pursuant to Decree-Law No. 13/2016 of 18 May 2016 on Regulations on the Fund for Infrastructure, or any successor thereto;
- (b) "Consulting Services" means consulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan;



- (c) "EMP" means the environmental management plan for the Project, including any update thereto, incorporated in the IEE;
- (d) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;
- (e) "IEE" means each and all initial environmental examinations for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (f) "Indigenous Peoples Safeguards" means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;
- (g) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;
- (h) "GAP" means a gender action plan prepared for the Project and/or any of its components, including any update thereto;
- (i) "Goods" means equipment and materials as set out in the Procurement Plan and to be financed out of the proceeds of the Loan, including any related Nonconsulting Services such as transportation, insurance, installation, commissioning, training, and initial maintenance;
- (j) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);
- (k) "MPW" means the Borrower's Ministry of Public Works;
- (l) "Nonconsulting Services" means nonconsulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan;
- (m) "PAM" means the project administration manual for the Project dated [28 April 2021] and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;
- (n) "Procurement Plan" means the procurement plan for the Project dated [28 April 2021] and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Policy, the Procurement Regulations, and other arrangements agreed with ADB;
- (o) "Procurement Policy" means ADB's Procurement Policy - Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);

- (p) "Procurement Regulations" means ADB's Procurement Regulations for ADB Borrowers – Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (q) "Project Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, CAFI, which is responsible for the carrying out of the Project, or any successor acceptable to ADB;
- (r) "Project facilities" means the facilities to be improved, constructed or provided under the Project;
- (s) "Project Implementing Agency" means MPW, or any successor thereto acceptable to ADB;
- (t) "REGDP" means three integrated resettlement and ethnic group development plans for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;
- (u) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of and compliance with the EMP and the REGDP (as applicable), including any corrective and preventative actions;
- (v) "Services" means Consulting Services and Nonconsulting Services;
- (w) "SMASA" means Municipal Water, Sanitation, and Environment Services of the participating cities of Lospalos, Viqueque, and Same;
- (x) "SPS" means ADB's Safeguard Policy Statement (2009); and
- (y) "Works" means construction or civil works as set out in the Procurement Plan and to be financed out of the proceeds of the Loan, including any related Nonconsulting Services, and project related services that are provided as part of a single responsibility or turnkey contract.

## ARTICLE II

### The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of forty-seven million Dollars (\$47,000,000).

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

*HA*

Section 2.02. The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

### ARTICLE III

#### Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied exclusively to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 March 2029 or such other date as may from time to time be agreed between the Borrower and ADB.

### ARTICLE IV

#### Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each

such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods, Works and Services, and any relevant records and documents.

## ARTICLE V

### Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: the Grant Agreement shall have been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and all conditions precedent to its effectiveness, other than a condition requiring effectiveness of this Loan Agreement, shall have been fulfilled.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Grant Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with its terms.

Section 5.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

AK

**ARTICLE VI****Miscellaneous**

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

Ministry of Finance  
Avenida de Portugal  
Rua Baleia, Edificio do Ministério das Finanças. 10. andar  
Aitarak Laran  
Dili, Timor-Leste

Facsimile Number:

+670 332-1339.

For ADB

Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 8636-2444

(632) 8636-2446.

pk

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

DEMOCRATIC REPUBLIC  
OF TIMOR-LESTE

By



RUI AUGUSTO GOMES  
Minister of Finance

ASIAN DEVELOPMENT BANK

By



SUNIL MITRA  
Country Director  
Timor-Leste Resident Mission



**SCHEDULE 1****Description of the Project**

1. The objective of the Project is to provide inclusive and sustainable access to water supply and sanitation services in the participating cities of Lospalos, Viqueque, and Same.
2. The Project shall comprise the following:
  - (a) **Output 1: Regulatory environment improved**, including (i) development and endorsement of an institutional development roadmap on planning, service delivery, and financial management, and (ii) establishment of planning and service delivery guidelines integrating gender actions for management of water supply and sanitation;
  - (b) **Output 2: Water Supply and Sanitation infrastructure improved**, including (i) construction of water supply treatment facilities with a total capacity of approximately 24,000 cubic meters per day; (ii) construction of approximately 130 km of water supply network; (iii) installation of water meters in approximately 7,000 households; (iv) rehabilitation and/or construction of approximately 12 public toilets; and (v) construction of fecal sludge treatment facilities with a total capacity of approximately 9.2 cubic meters per day; and
  - (c) **Output 3: Institutional effectiveness improved**, including (i) the establishment and implementation of an asset management information system; (ii) training of 50 SMASAs' staff (of whom 8% women) in planning, project management, asset management, operation and maintenance, financial management, and tariff collection; and (iii) development and implementation by the Project Implementing Agency of an institutional gender equality strategy to promote gender mainstreaming and social inclusion.
3. The Project is expected to be completed by 30 September 2028.

SA

## SCHEDULE 2

## Amortization Schedule

<u>Payment Due</u>	<u>Payment of Principal</u> (expressed in Dollars)*
15 October 2026	1,175,000
15 April 2027	1,175,000
15 October 2027	1,175,000
15 April 2028	1,175,000
15 October 2028	1,175,000
15 April 2029	1,175,000
15 October 2029	1,175,000
15 April 2030	1,175,000
15 October 2030	1,175,000
15 April 2031	1,175,000
15 October 2031	1,175,000
15 April 2032	1,175,000
15 October 2032	1,175,000
15 April 2033	1,175,000
15 October 2033	1,175,000
15 April 2034	1,175,000
15 October 2034	1,175,000
15 April 2035	1,175,000
15 October 2035	1,175,000
15 April 2036	1,175,000
15 October 2036	1,175,000
15 April 2037	1,175,000
15 October 2037	1,175,000
15 April 2038	1,175,000
15 October 2038	1,175,000
15 April 2039	1,175,000
15 October 2039	1,175,000
15 April 2040	1,175,000
15 October 2040	1,175,000
15 April 2041	1,175,000
15 October 2041	1,175,000
15 April 2042	1,175,000
15 October 2042	1,175,000
15 April 2043	1,175,000
15 October 2043	1,175,000
15 April 2044	1,175,000
15 October 2044	1,175,000
15 April 2045	1,175,000
15 October 2045	1,175,000
15 April 2046	1,175,000
Total	47,000,000

\* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

**SCHEDULE 3****Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest Charge

3. The amount allocated to Category "Interest Charge" is for financing the interest charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest charge.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

- (a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and
- (b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
No.	Item	Amount Allocated for ADB Loan Financing Category (\$)	Basis for Withdrawal from the Loan Account
1	Works	25,332,876	81.9% of total expenditure claimed*
2	Goods (Equipment)	4,187,416	63.6% of total expenditure claimed*
3	Consulting Services (Project management consultant)	5,741,260	92% of total expenditure claimed*
4	Consulting Services (Capacity development)	280,000	73.7% of total expenditure claimed*
5	Recurrent costs	1,770,000	100.0% of total expenditure claimed*
6	Interest Charge	2,358,526	100.0% of amount due
7	Unallocated	7,329,922	
	Total	47,000,000	

\* Exclusive of taxes and duties imposed within the territory of the Borrower.

AA

## SCHEDULE 4

### Execution of Project

#### Implementation Arrangements

1. The Borrower, including the Project Executing Agency and the Project Implementing Agency, shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

#### Procurement

2. The Borrower shall ensure, and cause the Project Implementing Agency to ensure, that:

- (a) the procurement of Goods, Works and Services is carried out in accordance with the Procurement Policy and the Procurement Regulations;
- (b) Goods, Works and Services shall be procured based on the detailed arrangements set forth in the Procurement Plan, including the procurement and selection methods, the type of bidding documents, and ADB's review requirements. The Borrower may modify the detailed arrangements set forth in the Procurement Plan only with the prior agreement of ADB, and such modifications must be set out in updates to the Procurement Plan;
- (c) Goods, Works and Services may also be procured under the Project from non-member countries of ADB; and
- (d) (i) all Goods and Works procured and Services obtained (including all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party; and (ii) all contracts for the procurement of Goods, Works and Services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor, supplier, consultant or service provider with respect to the matters referred to in this subparagraph.

3. The Borrower shall not award any Works contract which involves environmental impacts until:

- (a) The Borrower's National Authority for Environmental Licensing under the Secretary of State for Environment has granted the approval of the relevant IEE and EMP through issuing the corresponding environmental license; and the Project Implementing Agency has obtained ADB's clearance of the IEE and EMP based on the final design; and

*RT*

- (b) the Project Implementing Agency has incorporated the relevant provisions from the EMP into the Works contract.

4. The Borrower shall not award any Works contract which involves involuntary resettlement impacts, until the Project Implementing Agency has prepared and submitted to ADB the final REGDP based on the Project's detailed design, and obtained ADB's clearance of such REGDP.

#### Environment

5. The Borrower shall cause the Project Implementing Agency to ensure that the preparation, design, construction, implementation, operation and decommissioning of the Project and all Project facilities comply with (a) all applicable laws and regulations of Timor-Leste relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEE, the EMP, and any corrective or preventative actions set forth in an Environmental Safeguards Monitoring Report.

#### Land Acquisition and Involuntary Resettlement

6. The Borrower shall cause the Project Implementing Agency to ensure that all land and all rights-of-way required for the Project are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of Timor-Leste relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the REGDP, and any corrective or preventative actions set forth in a Social Safeguards Monitoring Report.

7. Without limiting the application of the Involuntary Resettlement Safeguards or the REGDP, the Borrower shall cause the Project Implementing Agency to ensure that no physical or economic displacement takes place in connection with the Project until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the REGDP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the REGDP.

#### Indigenous Peoples

8. The Borrower shall cause the Project Implementing Agency to ensure that the preparation, design, construction, implementation and operation of the Project and all Project facilities comply with (a) all applicable laws and regulations of Timor-Leste relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; and (c) all measures and requirements set forth in the REGDP, and any corrective or preventative actions set forth in a Social Safeguards Monitoring Report.

AK

Human and Financial Resources to Implement Safeguards Requirements

9. The Borrower shall make available necessary budgetary and human resources to fully implement the EMP and the REGDP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

10. The Borrower shall cause the Project Implementing Agency to ensure that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP, and the REGDP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in any of the respective Environmental and Social Safeguards Monitoring Reports;
- (b) make available a budget for all such environmental and social measures;
- (c) promptly provide the Borrower with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, and the REGDP;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) fully reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

11. The Borrower shall cause the Project Implementing Agency to do the following:

- (a) submit semiannual Environmental Safeguards Monitoring Reports and Social Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP, and the REGDP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP, or the REGDP promptly after becoming aware of the breach.



Labor Standards, Health and Safety

12. The Borrower shall cause the Project Implementing Agency to ensure that the core labor standards and the Borrower's applicable laws and regulations are complied with during Project implementation. The Borrower shall cause the Project Implementing Agency to include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women.

13. The Borrower shall strictly monitor compliance with the requirements set forth in paragraph 12 above and provide ADB with regular reports.

Gender and Development

14. The Borrower shall cause the Project Implementing Agency to ensure that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB; and (e) key gender outcome and output targets include: (i) the equitable access to employment and training in unskilled and professional positions for men and women, (ii) the development and monitoring of customer service feedback and complaint procedures, and (iii) strengthened community capacity on water use and conservation.

Financial Matters and Counterpart Support

15. The Borrower shall ensure that (i) SMASAs timely prepare and implement their annual budgets, (ii) the Project Implementing Agency is allocated adequate annual budget necessary for successful Project implementation, including land acquisition and recurrent costs, and (iii) SMASAs annual budgets for each fiscal year during the term of the Loan allocate adequate funding and other resources for continued operation and maintenance of the Project facilities.

16. The Borrower shall cause the Project Implementing Agency to ensure that adequate funding and human resources are allocated so that all Project facilities are maintained and operated in good condition, and in strict conformity with all applicable laws, regulations and standards. In addition to the foregoing, the Borrower shall ensure that the Project Implementing Agency and relevant implementing agencies have sufficient funds to satisfy its liabilities arising from any Works, Goods and/ or Services contract.

Prohibited List of Investments

17. The Borrower shall ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.



### Grievance Redress Mechanism

18. The Borrower shall cause the Project Implementing Agency to ensure that separate safeguards grievance redress mechanisms acceptable to ADB are established in accordance with the provisions of the IEE, EMP, and REGDP at the Project Management Unit (PMU) office, within the timeframes specified in the relevant safeguards planning documents, to consider safeguards complaints.

### Operational Covenants

19. The Borrower represents and warrants that Bee Timor-Leste, E.P., is duly established and validly existing wholly state-owned public institution with legal personality and capacity, administrative and financial autonomy, governed by the Borrower's Decree-Law 41/2020 of 25 September 2020 ("BTL"), which mandated succession of the rights, obligations and assets regarding water and sanitation under the MPW's direct administration, and shall further ensure that by the end of 2021 BTL shall have been adequately staffed, funded and equipped, and is fully operational to perform its functions in accordance with applicable legislation.

20. The Borrower shall ensure that SMASAs have adequate legal powers and enforcement mechanisms to effectively collect service fees and penalize defaulters in order to improve the collection efficiency, deter non-payment and ensure sustainability of SMASAs' operations.

21. The Borrower shall cause the Project Implementing Agency and relevant authorized agency to (a) increase water supply and sanitation tariffs and fees progressively to cover full operation and maintenance cost, (b) undertake an annual review of tariffs and fees including an assessment of their impact on the poor, and (c) based on such review, take necessary measures to ensure service provision to the poor.

22. The Borrower shall cause the Project Implementing Agency to ensure that the Project's civil works contractors take necessary actions to minimize interruptions to water supply and other utility services during the construction under the Project.

### Change of Control

23. The Borrower shall ensure that ADB's consent is obtained at least 6 months prior to the implementation of any of the following: (i) any direct or indirect change in ownership of any asset, facility or structure financed under the Project; (ii) any direct or indirect sale, transfer, or assignment of interest or control in any asset, facility or structure financed under the Project; or (iii) any direct or indirect lease or other contract or modification of the functions and authority of SMASA over operation and maintenance of any such asset, facility or structure financed under the Project. The Borrower shall ensure that any such changes will be carried out in a legal and transparent manner.

### Governance and Anticorruption

24. The Borrower, the Project Executing Agency, the Project Implementing Agency, and other implementing agencies shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project;

and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

25. The Borrower, the Project Executing Agency, the Project Implementing Agency, and other implementing agencies shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

RA